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STERISYSTEMS LTD.

ANNUAL REPORT

1972

This annual report covers the fifth year of operations for Sterisystems Ltd., its second as a public company.

Sterisystems Ltd. operates in the health care field through four divisions—Sterivision, engaged in hospital patient television rental; Sterimed, distributing electrical and electronic medical and surgical instruments; Stericomm, supplying hospital communication systems; and Steriflower, conducting in-hospital flower sales. In addition, the company recently acquired Webber Pharmaceuticals Limited—Canada's original and leading manufacturer of vitamin E.

Corp report

STERISYSTEMS LTD.

47 BAYWOOD ROAD, REXDALE, ONTARIO.

INTERIM REPORT
TO SHAREHOLDERS

FOR SIX MONTHS ENDED
JUNE 25, 1971.

REPORT TO SHAREHOLDERS

During the first half of 1971, your Company maintained the consistently strong rate of growth which has been a pattern of operations for the past three years. Since this is our first report to shareholders, it would seem desirable to go into somewhat greater detail than normal in an interim report, and this we are pleased to do.

At the beginning of the year, we had 21,907 hospital beds wired for our television service available for rental to patients. By the end of June, we had 26,273 wired beds available for rental, operating in 106 hospitals. A further 14 hospitals, totalling approximately 3,600 beds, have signed contracts for installation during the second half of 1971, bringing a total of 120 hospitals currently committed to your Company's concept of television service to patients in hospitals.

A brief glance at comparative statistics for the period June 26, 1970 and June 25, 1971 will illustrate this growth pattern:

	June 26 1970	June 25 1971
Hospital Beds Wired	15,705	26,273
Six Month Revenue	$492,736	$797,726
Income before Interest, Depreciation & Amortization	141,979	319,883
Profit (loss) for Period	(4,970)	109,363

Your Company completed new financing in June of this year to permit this continued expansion. The effect of this financing is illustrated in the financial summary and operating results for the six months ended June 25, 1971 with comparative figures for the corresponding period of 1970, which is included with this interim report.

Under arrangements with the Company's bankers, an additional $250,000 of long-term borrowing would be made available to the Company if operations in the first half of 1971 produced a profit of $300,000 before interest and depreciation. As we exceeded this by approximately $20,000, this accommodation has been granted by the bank.

Your Company has two other sales divisions, in addition to the patient television service known as STERIVISION. These are the STERICOMM and STERIMED Divisions.

STERICOMM Division offers for sale, or lease, to hospitals a broad range of communications and control equipment: including closed circuit television; internal hospital communications systems that permit audio and visual communications between hospital staff, and staff to patient; electrical hazard detection devices; fire and smoke detection and alarm devices; and automatic parking lot control systems.

STERIMED Division has received exclusive appointment in Canada to a number of prominent U.S. medical instrumentation product lines. These include Olson Medical Products, Pioneer Filters, Valleylab, Statham Instruments, Ivac Corporation and T.M.I. Medical, Inc. We have received non-exclusive appointment for Cook Inc. As a result, we can offer to hospitals a comprehensive artificial kidney product line from Olson and T.M.I. Medical; an advanced technology electro-surgery line from Valleylab; complete patient monitoring, blood pressure and blood flow from Statham; blood filters for open heart surgery and transfusion from Pioneer; diagnostics for cardiology and radiology from Cook Inc.; instrumentation in the intravenous therapy and temperature field from Ivac.

The STERIMED Division was established in May of 1971 and we anticipate good results in the second half, and in future years. A large portion of sales of both STERIMED and STERICOMM Divisions will be achieved in the second half of this year. The establishment of both these divisions permits our marketing force to take advantage of their contacts with hospital administrators, at which level we have enjoyed good acceptance.

It is anticipated that earnings in the second half of the year will be considerably better than the first half, for three reasons:

- We have almost 4,400 more beds available for rental, and expect to add at least another 3,600 beds in the second half.
- STERICOMM Division sales will be higher in the second, as the result of orders now being processed.
- STERIMED Division, which only came into operation in May, will make an important contribution to volume in the second half.

If you have any suggestions that you believe would assist us in the development and expansion of your Company's business, please feel free to contact us.

On behalf of the Board

PAUL G. JEFFREY
President

September 10, 1971

STERISYSTEMS LTD.

AND SUBSIDIARY COMPANIES

CONSOLIDATED BALANCE SHEET

(not audited)

June 25, 1971

(with comparative figures at June 26, 1970)

Assets

	1971	1970
CURRENT ASSETS		
Cash	$ —	$ 3,234
Accounts Receivable	169,251	104,330
Subscriptions Receivable	—	55,280
Income taxes recoverable	243	888
Inventory valued at lower of cost and net realizable cost	93,007	23,178
Prepaid expenses	30,060	18,279
	292,561	205,189
OTHER ASSETS		
Television sets and materials for use in rental equipment and hospital installations	208,164	436,795
Installations in progress, at cost.	157,545	271,296
Deferred engineering costs	—	11,370
Option on land, at cost	—	10,000
Land held for resale, at cost	53,204	—
Accounts receivable, less current portion	31,294	—
	450,207	729,461
FIXED ASSETS		
Rental, hospital installations and other equipment and lease-hold improvements	2,842,433	1,665,359
Less accumulated depreciation and amortization	400,286	248,288
	2,442,147	1,417,071
GOODWILL, including $631,512 in 1971; ($606,269 in 1970) which represents excess of cost of shares and subsidiary companies over net tangible assets at date of acquisition	675,936	650,693
PATENT LICENCES, at cost, less amortization	140,002	150,000
INCORPORATION EXPENSE	3,806	3,406
	$4,004,659	$3,155,820

Liabilities

	1971	1970
CURRENT LIABILITIES		
Bank overdraft (secured)	$ 130,746	$ —
Bank loan (secured)	—	150,000
Accounts payable and accrued liabilities	260,915	408,691
Non-interest bearing debentures payable, June 18, 1971	—	300,000
Loan payable	7,104	—
Principal due within one year on long-term debt	98,170	18,400
	496,935	877,091
LONG-TERM DEBT	1,056,228	955,739

Shareholders' Equity

	1971	1970
CAPITAL STOCK		
AUTHORIZED:		
96,000—80¢ Cumulative Convertible Redeemable Class A Preferred Shares of the par Value of $13.50 each		
60,000—8% Cumulative Convertible Redeemable Class B Preferred Shares of the par Value of $10.00 each (6% after July 1, 1971)		
500,000—Common shares without par value		
ISSUED:		
60,000—Class A Preferred Shares	810,000	—
60,000—Class B Preferred Shares	600,000	600,000
240,150—Common shares (210,950 in 1970)	1,372,000	1,070,550
	2,782,000	1,670,550
DEFICIT	330,504	347,560
	2,451,496	1,322,990
	$4,004,659	$3,155,820

STERISYSTEMS LTD.
AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF INCOME AND DEFICIT
(not audited)

For the six months ended June 25, 1971
(with comparative figures for the six months ended June 26, 1970)

	1971	1970
REVENUE		
Set rentals	$ 625,791	$ 341,480
Earpiece sales	49,332	27,453
Equipment sales	117,105	122,913
Sundry	5,498	890
	797,726	492,736
EXPENSES		
Cost of earpiece and equipment sales	91,178	98,611
Hospital and attendant commissions	174,276	98,020
Selling	60,252	43,371
Operating	78,252	60,084
Administrative	73,885	50,671
	477,843	350,757
Income before the following items	319,883	141,979
Interest on debt	71,301	68,949
Depreciation and amortization	139,219	78,000
	210,520	146,949
Profit (loss) for the period	109,363	(4,970)
Deficit at beginning of period	352,273	342,590
	242,910	347,560
Add—finance costs	87,594	—
Deficit at end of period	$ 330,504	$ 347,560

STERISYSTEMS LTD.
AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS
(not audited)

For the six months ended June 25, 1971
(with comparative figures for the six months ended June 26, 1970)

	1971	1970
Source of Funds		
Operations		
Profit (loss) for the period	$ 109,363	$ (4,970)
Depreciation and amortization which do not involve current funds	139,219	78,000
	248,582	73,030
Re-classify current bank loan to term loan	1,000,000	—
Increase in long-term debt	—	169,783
Issue of Preferred Shares	810,000	—
Issue of Common Shares	301,450	680,050
Decrease of deferred engineering	11,370	—
	2,371,402	922,863
Application of funds		
Increase in other assets		
Television sets and materials for use in rental equipment and hospital installations	11,207	93,432
Installations in progress	13,618	203,375
Non-current receivables	4,446	—
Land held for resale	43,204	—
Additions to fixed assets	559,430	416,210
Prepayment of 8% unsecured notes	425,000	—
Re-classify non-interest bearing debentures due June 18, 1971	—	300,000
Finance costs charged to deficit	87,594	—
Reduction of long-term debt	28,276	—
Increase in goodwill	—	10,500
Increase in incorporation expense	—	725
	1,172,775	1,024,242
Increase (decrease) in working capital position	1,198,627	(101,379)
Working capital (deficiency) at beginning of period	(1,403,001)	(570,523)
Working capital (deficiency) at end of period	$ (204,374)	$ (671,902)

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and Sterilflower, conducting in-hospital flower sales. In addition, the
company recently acquired Webber Pharmaceuticals Limited — Canada's original and leading manufacturer of vitamin E.

STERISYSTEMS LTD.
AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF INCOME
(not audited)
For the Six Months Ended June 30, 1972
(with comparative figures for 1971)

	1972	1971
Revenue	$1,388,370	$ 797,726
Cost of Sales and Other Expenses	869,662	477,843
Income before the following items	518,708	319,883
Interest on debt	69,044	71,301
Depreciation and amortization (including amortization of goodwill)	213,279	139,219
	282,323	210,520
Income before income taxes and extraordinary item	236,385	109,363
Income taxes—deferred	128,000	55,000
Income before extraordinary item	108,385	54,363
Extraordinary Items		
Income tax reduction arising from the carry-forward of prior years' losses	70,000	55,000
Net Income for the period	$ 178,385	$ 109,363
Earnings per share—fully diluted	$ .49	$ .34

CONSOLIDATED STATEMENT OF DEFICIT
(not audited)
For the Six Months Ended June 30, 1972
(with comparative figures for 1971)

	1972	1971
Balance beginning of period	$ 98,042	$ 352,273
Net income for the period	178,385	109,363
	(80,343)	242,910
Dividends—Class A	12,184	
—Class B	170,008	
Cost of financing written off		87,594
	182,192	87,594
Balance end of period	$ 101,849	$ 330,504

STERISYSTEMS LTD.
AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS
(not audited)
For the Six Months Ended June 30, 1972
(with comparative figures for 1971)

	1972	1971
SOURCE OF FUNDS		
Operations		
Net income for the period	$ 178,385	$ 109,363
Depreciation and amortization which do not involve current funds	194,475	139,219
Deferred contract income	22,400	
Deferred income taxes	58,000	
Consolidated goodwill	18,804	
	472,064	248,582
Re-classify current bank loan to term loan		1,000,000
Issue of preferred shares		810,000
Issue of common shares	137,000	301,450
Decrease in deferred engineering		11,370
	609,064	2,371,402
APPLICATION OF FUNDS		
Acquisition of subsidiary company	9,000	
Increase in other assets		
Television sets and materials for use in rental equipment and hospital installations	207,081	11,207
Non-current receivables	69,522	4,446
Land held for resale		43,204
Additions to fixed assets—net	513,223	573,048
Decrease in long-term debt	107,987	28,276
Prepayment of 8% unsecured notes		425,000
Dividends paid	182,192	
Cost of financing written off		87,594
	1,089,005	1,172,775
Decrease (increase) in working capital position	479,941	(1,198,627)
Working capital deficiency at beginning of period	277,721	1,403,001
Working capital deficiency at end of period	$ 757,662	$ 204,374

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STERISYSTEMS LTD.

47 BAYWOOD ROAD, REXDALE, ONTARIO.

INTERIM REPORT
TO SHAREHOLDERS

FOR SIX MONTHS ENDED
JUNE 30, 1972

REPORT TO SHAREHOLDERS

The Company's financial results for the six months ended June 30, 1972, compared with results for the corresponding period last year, are as follows:

	1972	1971	Increase
Revenue	$1,388,370	$ 797,776	74.0%
Profit before tax	236,385	109,363	116.1%
Income taxes deferred	128,000	55,000	
Income tax reduction from loss carry-forward	70,000	55,000	
Net income for period	$ 178,385	$ 109,363	63.1%

On May 26, 1972 the Company paid all outstanding arrears of dividends on the Class B preferred shares and on May 31, 1972, under the terms and conditions attached to the Class B preferred shares, all such shares were converted into 36,000 Class A preferred shares and 9,600 common shares.

On May 29, 1972 the Company gave notice to all shareholders of its intention to grant holders of its common shares of record as at the close of business on June 29, 1972, the right to subscribe for one additional common share at a price of $20 per share for each twelve common shares held. Prior to June 29, 1972, holders of 95,079 Class A preferred shares converted their holdings into common shares.

It is anticipated that approximately $590,000 will be raised by the rights issue, of which $400,000 will be used to repay an interim bank loan and the remainder added to the Company's working capital.

Although the Company's total sales increased by 74% in the first half of 1972 as compared to the previous year, the Company's hospital television rental division was affected in 1972 by strikes in the television broadcasting industry and by the strike of Quebec Hospital employees. With settlement of these strikes, it is expected that the second half of the year, which is traditionally the Company's best sales period, will produce even better results. The Company's equipment sales division generated greater than anticipated sales and this trend is expected to continue for the remainder of the year.

On behalf of the Board
PAUL G. JEFFREY
President

July 28, 1972

STERISYSTEMS LTD.
AND SUBSIDIARY COMPANIES

CONSOLIDATED BALANCE SHEET
(not audited)
June 30, 1972
(with comparative figures at June 25, 1971)

ASSETS

	1972	1971
CURRENT ASSETS		
Accounts receivable	$ 251,064	$ 169,494
Inventory valued at lower of cost and net realizable value	166,640	93,007
Prepaid expenses	25,011	30,060
	442,715	292,561
OTHER ASSETS		
Television sets and materials for use in rental equipment and hospital installations, at cost	467,905	208,164
Deferred engineering costs	6,000	
Land held for resale, at cost	53,469	53,204
Accounts receivable, less current portion	97,746	31,294
	625,120	292,662
FIXED ASSETS		
Rental, hospital installation and other equipment and leasehold improvements, at cost	4,062,739	2,999,978
Less accumulated depreciation and amortization	713,474	400,286
	3,349,265	2,599,692
GOODWILL, including $640,512 ($631,512 in 1971) which represents excess of cost of shares of subsidiary companies over net tangible assets at date of acquisition, less amortization	668,035	675,936
PATENT LICENCES, at cost, less amortization	130,002	140,002
INCORPORATION EXPENSE, at cost, less amortization	1,904	3,806
	$5,217,041	$4,004,659

LIABILITIES

	1972	1971
CURRENT LIABILITIES		
Bank—overdraft (secured)	$ 88,000	$ 130,746
—demand loan (secured)	550,000	
Accounts payable and accrued liabilities	314,273	260,915
Dividend payable	184	
Loan payable		7,104
Principal due within one year on long-term debt	247,920	98,170
	1,200,377	496,935
LONG-TERM DEBT	1,119,113	1,056,228
DEFERRED CONTRACT INCOME	22,400	
DEFERRED INCOME TAXES	58,000	
CAPITAL STOCK		
AUTHORIZED:		
96,000—80¢ Cumulative Convertible Redeemable Class A Preferred Shares of the par value of $13.50 each		
60,000—6% Cumulative Convertible Redeemable Class B Preferred Shares of the par value of $10 each (8% prior to July 1, 1971)		
500,000—Common Shares without par value		
ISSUED:		
921—Class A Preferred Shares (1971—60,000)	12,433	810,000
nil—Class B Preferred Shares (1971—60,000)		600,000
358,829—Common Shares (1971—240,150)	2,906,567	1,372,000
	2,919,000	2,782,000
DEFICIT	101,849	330,504
	2,817,151	2,451,496
	$5,217,041	$4,004,659

Sterisystems Ltd.

FINANCIAL HIGHLIGHTS

	1972	1971	1970	1969	1968
Revenue	**$2,874,153**	$1,802,992	$1,086,782	$ 363,686	$ 71,726
Net profit (loss) before interest, depreciation and amortization and income taxes	**1,127,819**	776,118	328,140	(133,772)	(71,584)
Cash Flow	**994,517**	647,132	181,192	(155,290)	(74,483)
Profit (loss) for the year	**$ 451,123**	$ 374,520	$ (9,683)	$ (251,599)	$ (90,991)
Earnings per share—*fully diluted	**$0.37**	$0.39	$0.02		
Shares outstanding at year end					
Class A preferred		60,000			
Class B preferred		60,000	60,000	60,000	60,000
*Common	**1,169,373**	720,450	632,850	358,500	318,750

*after giving effect to a 3 for 1 sub-division by supplementary letters patent dated November 24, 1972.

Net investment in rental, hospital installations and other equipment and leasehold improvements	**$4,333,945**	$3,025,520	$2,160,865	$1,073,861	$ 315,569
Long-term debt, net of current portion	**1,589,969**	1,227,100	509,504	1,085,956	
Shareholders' equity	**3,690,220**	2,683,958	1,318,277	647,910	821,509

REPORT OF THE PRESIDENT

Your company's strong pattern of growth and development was maintained in 1972 as this report will indicate. More importantly, we have established new efficiencies in operations which when combined with recent acquisitions will contribute to a continuation of profit improvement in the future.

Financial

Due to extraordinary items having less bearing on 1972 figures, the real growth in earnings is masked in our reported net profit figures which rose to $451,123 from $374,520. A further distortion to our real growth in 1972 is the conversion of all Class A and B preference shares into common shares. This move streamlined our capital structure which will be of ongoing benefit to us, but it had the immediate effect of diluting common share earnings. As a result, reported profits per share of 37 cents were recorded in 1972 as compared with 39 cents in 1971.

A more realistic picture of growth and momentum can be seen in pre-tax profits which climbed in 1972 by 68.3 percent to $606,083 from $359,595. Net profits, exclusive of extraordinary items, rose by 53 percent to $295,103 from $192,595, or 25 cents per share from 18 cents per share.

Sterivision

Our hospital television entertainment division, Sterivision expanded impressively during the year. The number of bed installations increased by over 30 percent and the number of hospitals in which we now offer this service has increased by over 20 percent. In addition, your company introduced a lease plan for smaller hospitals during the year, and this formula is gaining rapid acceptance across the country.

Sterimed

The diversification into the medical specialty field, commenced in 1971, has been broadened. The Sterimed division has added important new product lines among which are exclusive rights to distribute Bivona endotracheal and tracheostomy tubes, a disposable product that fills a long standing need in the health care field. Sterimed also acquired Canadian rights to the E.S.B. Medcor heart pacemaker which will provide us with an important presence in this large and growing market.

Stericomm

Our hospital communications division, Stericomm, has continued to make inroads into its market. The coaxial systems used in patient entertainment allows opportunities for the installation of Stericomm's

"Nurse Call", "Doctors Register" and "Pocket Paging" systems as well as closed circuit television installations for patient monitoring.

Steriflower

Also during 1972, the company introduced through its Steriflower division a new service to hospitals offering a unique concept of impluse retailing of flowers, featuring a refrigerated flower dispensing display case located in appropriate high traffic areas of hospital lobbies. This service is operated in co-operation with the hospital gift shop and volunteer personnel and is a logical corollary to our Sterivision television rental service. By the end of 1972, the company was the leading single distributor of flowers to hospitals in Canada and we look forward to serving one-third of the entire prime hospital market by the end of 1973.

Webber Pharmaceuticals Limited

Subsequent to the end of our 1972 fiscal year, the company acquired all the outstanding shares of Webber Pharmaceuticals Limited, Canada's leading manufacturer of vitamin E products from natural sources. Webber was founded in 1946 by Mr. William Jay Gutterson, who, over the past twenty-five years, brought this company to its prominent position in the supply of natural vitamin E products to Canadian doctors and consumers.

We expect this new division to make an important contribution to greater growth in sales and profits in the years ahead.

Future

Prospects for all divisions appear excellent. More lines will be added to Sterimed in 1973, and new hospitals will continue to be added to the television rental market which will allow us entry for our Stericomm and Steriflower activities. Webber Pharmaceuticals' sales should continue to rise. All in all we anticipate substantially improved sales and profits in 1973 as we maintain our strategy of building on our strengths while seeking new opportunities for growth.

Appreciation

On behalf of the board, I wish to express appreciation to management and all employees for their contribution to the company's continued growth. We believe the company is fortunate to have people with the energy and determination which will allow us to achieve the goals ahead.

DG Jeffrey

President

May 18, 1973

Sterisystems Ltd.
and subsidiary companies

CONSOLIDATED STATEMENT OF INCOME
YEAR ENDED DECEMBER 29, 1972
(with comparative figures for 1971)

	1972	*1971*
Revenue	$2,874,153	*$1,802,992*
Cost of sales and expenses other than undernoted	1,746,334	*1,041,799*
Income before the following items	1,127,819	*761,193*
Interest including interest on long-term debt 1972, $101,147; 1971, $98,603	132,782	*134,356*
Depreciation and amortization	388,954	*267,242*
	521,736	*401,598*
Income before income taxes and extraordinary items	606,083	*359,595*
Income taxes	310,980	*167,000*
Income before extraordinary items	295,103	*192,595*
Extraordinary items		
Gain on sale of investment		*14,925*
Income tax reduction (note 5)	156,020	*167,000*
	156,020	*181,925*
Net income for the year	$ 451,123	*$ 374,520*
Earnings per share (note 9)		
Income before extraordinary items	$ .27	*$ .18*
Net income for the year	.41	*.44*

CONSOLIDATED STATEMENT OF RETAINED EARNINGS
YEAR ENDED DECEMBER 29, 1972
(with comparative figures for 1971)

	1972	*1971*
Deficit at beginning of year	$ 98,042	*$ 352,273*
Net income for the year	451,123	*374,520*
	353,081	*22,247*
Dividends		
Class A preferred shares	12,184	*26,598*
Class B preferred shares	170,007	
	182,191	*26,598*
	170,890	*(4,351)*
Cost of financing written off		*93,691*
Retained earnings (deficit) at end of year	$ 170,890	*$ (98,042)*

CONSOLIDATED STATEMENT OF SOURCE AND APPLICATION OF FUNDS

YEAR ENDED DECEMBER 29, 1972

(with comparative figures for 1971)

	1972	*1971*
Source of funds		
Operations		
Net income for the year	$ 451,123	*$ 374,520*
Items not involving current funds		
Depreciation and amortization	388,954	*267,242*
Deferred income taxes	154,440	
Other		*5,370*
	994,517	*647,132*
Increase in long-term debt	469,000	*1,300,822*
Issue of Class A preferred shares		*810,000*
Issue of common shares	737,330	*301,450*
Reclassification of land held for resale	53,469	
	2,254,316	*3,059,404*
Application of funds		
Increase in other assets		
Television sets and materials for use in rental equipment and hospital installations	99,333	*63,867*
Land		*43,469*
Non-current receivables	61,429	*1,376*
Increase in deferred engineering costs	1,750	
Additions to fixed assets	1,687,379	*1,121,897*
Increase in goodwill arising on acquisition of a subsidiary company	9,000	
Decrease in non-current portion of long-term debt	106,131	*583,226*
Dividends		
Class A preferred shares	12,184	*26,598*
Class B preferred shares	170,007	
Cost of financing written off		*93,691*
	2,147,213	*1,934,124*
Increase in working capital position	107,103	*1,125,280*
Working capital deficiency at beginning of year	277,721	*1,403,001*
Working capital deficiency at end of year	$ 170,618	*$ 277,721*

Sterisystems Ltd.
(Incorporated under the laws of Canada)
and subsidiary companies

CONSOLIDATED BALANCE SHEET — DECEMBER 29, 1972
(with comparative figures at December 31, 1971)

ASSETS

	1972	1971
Current Assets		
Accounts receivable	$ 307,363	*$ 193,859*
Inventory valued at lower of cost and net realizable value	194,130	*98,236*
Land held for resale (note 2)	58,640	
Prepaid expenses	46,518	*17,160*
	606,651	*309,255*
Other Assets		
Television sets and materials for use in rental equipment and hospital installations, at cost	360,157	*260,824*
Deferred engineering costs	7,750	*6,000*
Land, at cost		*53,469*
Other receivables	89,653	*28,224*
	457,560	*348,517*
Fixed Assets (note 3)		
Rental, hospital installations and other equipment and leasehold improvements, at cost	5,236,896	*3,549,517*
Less accumulated depreciation and amortization	902,951	*523,997*
	4,333,945	*3,025,520*
Goodwill, including $660,512 which represents excess of cost of shares of subsidiary companies over net tangible assets at date of acquisition	684,936	*675,936*
Patent Licences, at cost, less amortization (note 7)	125,000	*135,000*
Incorporation Expense	3,806	*3,806*
	$6,211,898	*$4,498,034*

Approved by the Board

Paul G. Jeffrey, Director

Donald C. Webster, Director

LIABILITIES

	1972	*1971*
Current Liabilities		
Bank overdraft	$ 6,519	*$ 36,579*
Bank loan, secured by assignment of book debts	330,000	*120,000*
Accounts payable and accrued liabilities	212,703	*260,171*
Dividends payable		*12,000*
Principal due within one year on long-term debt	228,047	*158,226*
	777,269	*586,976*
Long-Term Debt (note 4)	1,589,969	*1,227,100*
Deferred Income Taxes (note 5)	154,440	

SHAREHOLDERS' EQUITY

Capital Stock (note 6)		
Authorized		
3,000,000 Common shares without par value		
Issued		
Class A preferred shares (1971—60,000 shares)		*810,000*
Class B preferred shares (1971—60,000 shares)		*600,000*
1,169,373 Common shares (1971—720,450 as subdivided)	3,519,330	*1,372,000*
	3,519,330	*2,782,000*
Retained Earnings (Deficit)	170,890	*(98,042)*
	3,690,220	*2,683,958*
	$6,211,898	*$4,498,034*

Long-term lease (note 8)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 29, 1972

1. Principles of Consolidation

The consolidated financial statements include the accounts of Sterisystems Ltd. and its wholly owned subsidiary companies.

2. Land Held for Resale

The land held for resale is recorded at cost plus carrying charges. In January, 1973 the company sold its land held for resale for approximately $58,000 and a portion of the proceeds was used to discharge the mortgage.

3. Fixed Assets

	1972			1971
	Cost	Accumulated depreciation	Net	Net
Rental equipment and hospital installations	$5,016,626	$ 864,636	$4,151,990	$2,928,816
Other equipment	180,950	30,490	150,460	71,692
Leasehold improvements	39,320	7,825	31,495	25,012
	$5,236,896	$ 902,951	$4,333,945	$3,025,520

Rental equipment consists mainly of television sets which, in the opinion of management, have a life expectancy of 10 to 15 years. Depreciation is being provided at 10% of original cost on a straight-line basis. Hospital installations are being depreciated over the term of the contract plus 1 year.

4. Long-Term Debt

	1972	1971
Bank term loan at the rate of 1½% above the bank's prime rate and secured by demand floating charge debentures and an assignment of book debts. The loan is evidenced by demand notes with repayments of $8,333 monthly during 1973 and 1974, $16,666 monthly during 1975 and 1976, and $25,000 monthly thereafter (see note 6(c))	$1,500,000	$1,250,000
Bank term loan at the rate of 1½% above the bank's prime rate, due December 1977 payable $20,000 annually	100,000	
Sundry loans at varying rates and maturities	218,016	135,326
	1,818,016	1,385,326
Less principal included in current liabilities	228,047	158,226
	$1,589,969	$1,227,100

5. Income Taxes

(a) The companies charge earnings with income taxes deferred by claiming capital cost allowance in excess of depreciation recorded in the accounts. The total of such income tax deferments is reflected in the balance sheet as "Deferred income taxes".

(b) The tax reduction of $156,020 ($167,000 in 1971) is shown as an extraordinary credit and arises from the carry-forward of prior years' losses.

6. Capital Stock

(a) During the year the company obtained supplementary letters patent resulting in the following changes in its capital structure:

(i) all of the authorized Class A preferred shares and Class B preferred shares allotted and issued by the company and converted during 1972 by the holders thereof were cancelled,

(ii) the 500,000 authorized common shares without nominal or par value were subdivided into 1,500,000 common shares and then increased by 1,500,000 common shares to a total of 3,000,000 shares.

	Number of shares	Amount
(b) Issued common share capital December 31, 1971 - -	240,150	$1,372,000
Increases arising from		
Conversion of 60,000 Class B preferred shares - - - - -	9,600	114,000
Conversion of 96,000 Class A preferred shares (including 36,000 shares issued upon conversion of the Class B preferred shares) - -	96,000	1,296,000
Issue of shares for cash -	43,841	733,820
	389,591	
Subdivided: 3 new common shares for each old common share outstanding at the close of business on November 24, 1972 - - - - - -	1,168,773	
Issue of shares for cash -	600	3,510
Issued common share capital December 29, 1972 - -	1,169,373	$3,519,330

(c) Under the company's bank term loan agreement (note 4), the company may not declare or pay dividends on its common shares without the prior consent of the bank as long as the term bank loan is outstanding.

(d) At December 29, 1972 options are outstanding on 145,650 common shares as follows:

Expiry dates	Shares	Price per share
May 31, 1973 to May 31, 1976	18,000 (4,500 shares per year)	$3.33 to $5.33
December 31, 1973	37,500	$3.33
July 1, 1973	15,000	$4.00
June 30, 1974 to June 30, 1976	15,000	$4.50 to June 30, 1974 or $5.83 to June 30, 1976

Option dates		
February 28, 1973 to February 28, 1977	2,400 (600 shares per year)	$5.85
September 7, 1974 to September 6, 1978	54,750 (21,900 shares after September 6, 1974 and 10,950 shares in each of the three years thereafter)	$6.90
January 4, 1975 to January 3, 1979	3,000 (1,200 shares after January 3, 1975 and 600 shares in each of the three years thereafter)	$8.78

7. Patent Licences

The patent licences are being amortized on a straight line basis over 17 years.

8. Long-Term Lease

The company rents a building under a long-term lease which expires November 30, 1979, the annual rental for which is $19,500.

9. Earnings per Share

Basic earnings per share have been calculated using the weighted average number of shares outstanding during the year (1971 as subdivided).

Fully diluted earnings per share have been calculated assuming exercise of all options and adjustments to income resulting from imputed interest on option proceeds.

Fully diluted earnings per share for 1972 are as follows:

Income before extraordinary items - - - - -	$ .25
Net income for the year - - - - - - - - -	.37

10. Remuneration of Directors and Officers

	1972	1971
Number of directors - - - - - - - -	7	7
Aggregate remuneration of directors as directors - - - - - - - - - -	$ 9,300	Nil

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Number of officers	4	4
Aggregate remuneration of officers as officers	$101,500	$88,000
Number of officers who are directors	2	2

11. Subsequent Event

In January, 1973 the company acquired all of the outstanding shares of Webber Pharmaceuticals Limited at a cost of approximately $3,000,000. The purchase agreement provides for a down payment of $1,250,000 and the balance in five equal instalments of $350,000 without interest.

The company intends to finance part of the purchase price by a private placement of common shares. Interim financing has been obtained through a temporary loan from a chartered bank which has been guaranteed by several of the major shareholders.

In 1973 the company intends to write off a total of approximately $3,230,000 consisting of:

(a) the excess of cost of shares over net tangible assets at date of acquisition of the acquired company (Webber)

(b) all other similar amounts arising on previous acquisitions and

(c) goodwill recorded in the accounts of the company.

12. Interim Statements

The 1972 interim financial statements reflected a charge for amortization for excess of cost of shares of subsidiary companies over net tangible assets at date of acquisition and goodwill recorded in the accounts of the company. If this policy had been adopted in the year end accounts the net income for 1972 would have been reduced by approximately $36,000 (note 11).

AUDITORS' REPORT

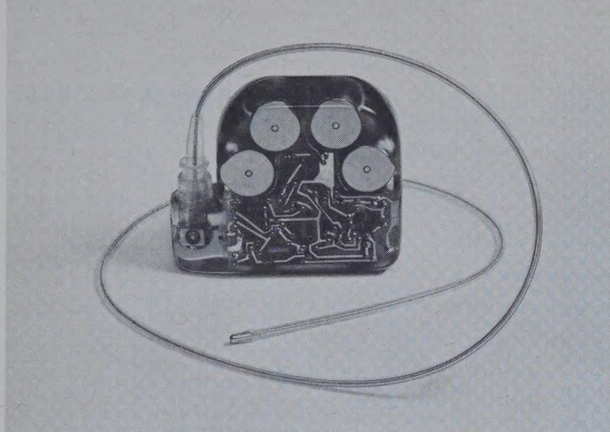
To the Shareholders of
Sterisystems Ltd.

We have examined the consolidated balance sheet of Sterisystems Ltd. and subsidiary companies as at December 29, 1972 and the consolidated statements of income, retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

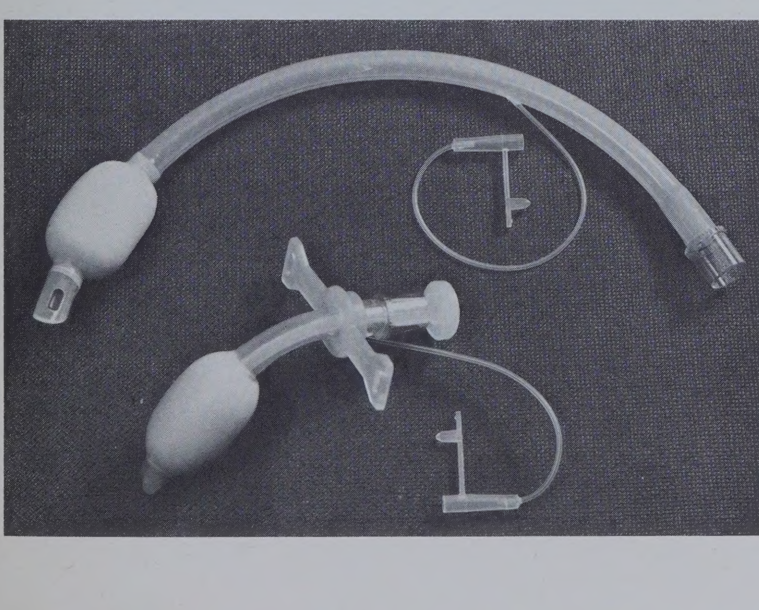
In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 29, 1972 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada
February 14, 1973

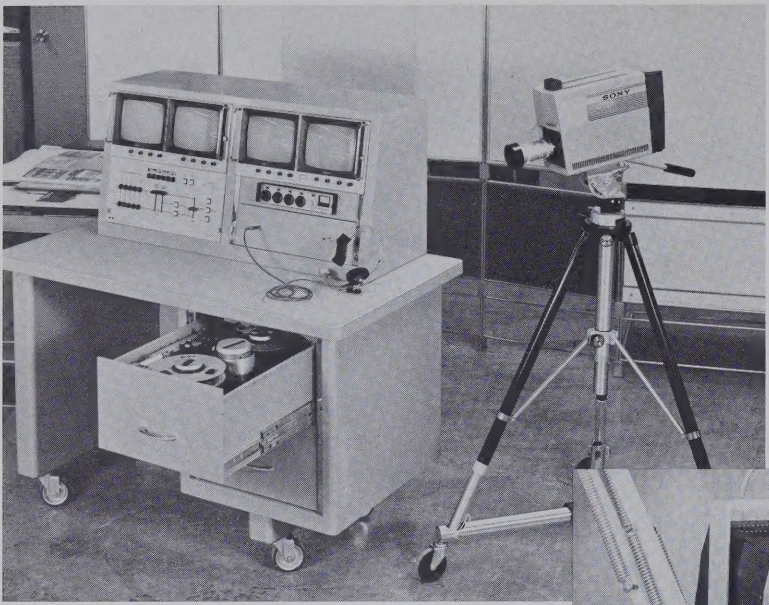
Thorne Gunn & Co.
Chartered Accountants



► *SteriMed Division has the exclusive Canadian marketing rights for the ESB Medcor Inc. implantable heart pacemaker as well as a telephone pacemaker check system. The advance design of the heart pacemaker's electronic circuitry enables the manufacturer to offer a 24-month unconditional warranty.*

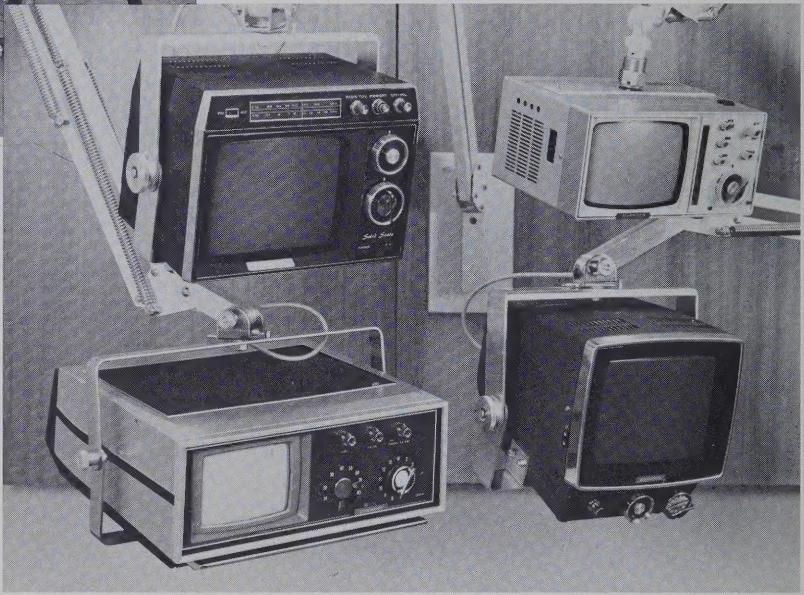


◄ *Pictured are the Kamen-Wilkinson Fome-Cuf endotracheal and tracheostomy tubes which SteriMed market exclusively in Canada. Both tubes are self-inflating and eliminate the problems normally associated with the use of conventional devices.*



◀ *Custom closed circuit consoles of the type illustrated are designed and built in Sterisystems' Rexdale plant.*

Three new patient entertainment television receivers were introduced, incorporating AM and FM radios and small screen colour receivers which are completely compatible with our single wire, low voltage Sterivision master systems. ▶



A new fresh flower service has been introduced to Women's Auxiliary Gift Shops that offers fresh floral arrangements at very low cost to the hospital visitors.

▼

▲

Sterisystems' new Audio Visual Nurse Call system manufactured in our Rexdale plant embodies all of the latest features necessary to meet the requirements of todays modern hospital.

Sterisystems Ltd.

BOARD OF DIRECTORS

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President, John C. L. Allen Limited

MICHAEL B. HARDING, Montreal
Assistant General Manager—Finance, Credit Foncier Franco Canadienne

*PAUL G. JEFFREY, Toronto
President and Chief Executive Officer, Sterisystems Ltd.

†MARCEL J. LAVIOLETTE, Montreal
President, Luxo Lamp (Canada) Limited

†MICHAEL L. NEEDHAM, Toronto
Vice-President, Helix Investments Limited

*†GERALD J. RISBY, Toronto
Vice-President and Director, Anglo American Corporation of Canada Limited

*DONALD C. WEBSTER, Toronto
President, Helix Investments Limited

*Members of the Executive Committee

†Members of the Audit Committee

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HAROLD M. PIPHER - - - - - - - - - - *Vice-President*

MICHAEL J. RUSSELL - - - - - - - - *Secretary-Treasurer*

AUDITORS

Thorne Gunn & Co., Toronto, Ontario

TRANSFER AGENT AND REGISTRAR

The Canada Trust Company, Toronto, Ontario

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